MARCH 25, 1985 THREE DOLLARS

C3956-1

Forbes

AS THE NETWORKS CHURN

Announcer voice-over
THE HUMAN STORY OF TODAY'S NETWORK EXECUTIVES AS BLOOD PRESSURES RISE AND NIELSEN RATINGS FALL.

Executives 1, 2 and 3 at boardroom table
EXEC 2: EVERYBODY SAYS WE'RE FINISHED, THAT WE CAN'T CUT IT NO MORE. WE GOTTA DO SOMETHING!

Cut to executive 1
LET 'EM BELIEVE WHAT THEY WANT. WE STILL HAVE A REAL SWEET THING GOING HERE.

Cut to executive 2
YOU'RE WRONG, TURKEY! THE ADVERTISERS KEEP MAKING NOISES ABOUT DESERTING US. THEY'RE GETTING OUT OF LINE.

Cut to executive 3
HE'S RIGHT. ALL THOSE STUPID SUITS ON MADISON AVENUE. WE HAVE TO PUT THEM IN THEIR PLACE.

Medium shot of Executives 1, 2 and 3
EXEC 1: NOW DON'T WORRY, DARLING. THIS REQUIRES FINESSE. WE'LL DAZZLE THEM WITH DEMOGRAPHICS.

Cut to Executive 3
(squealing with delight)
YESSS! SEDUCE THEM WITH QUALITY. OR GET THE NUMBERS TO TURN SOME NEW TRICKS!

Cut to door as messenger enters
MESSENGER: OVERNIGHTS! YOU'VE ALL LOST ANOTHER SHARE POINT EACH.

Cut to Executive 1
MERCY ME. WELL, WE MAY NOT BE THE ONLY GAME IN TOWN, BUT BY GOLLY WE'RE STILL THE BEST GAME

BETHESDA MD 20814
4520 EAST WEST HWY
SRI ACQUISITIONS
JOSEPH MCNALLY
T2514030 BF ZZ E2#I 20814
**********5-DIGIT 20814

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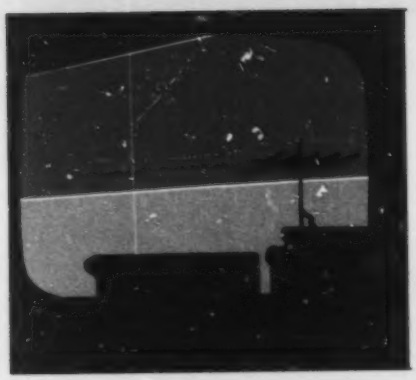
Forbes

March 25, 1985
Volume 135
Number 6



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Yes, there are driving schools that will teach you 100mph techniques in a Formula Ford. There's even one that specializes in ice and snow. Also: Bank mutual funds, Glass-Steagall or no.

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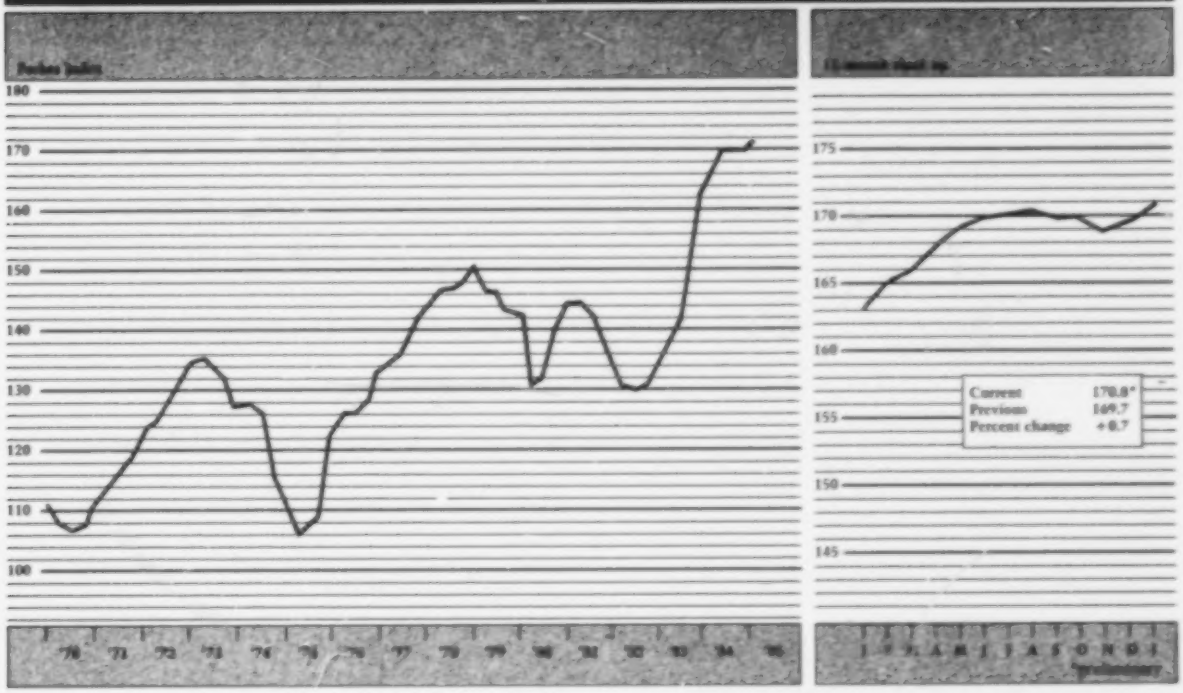
The Forbes Index

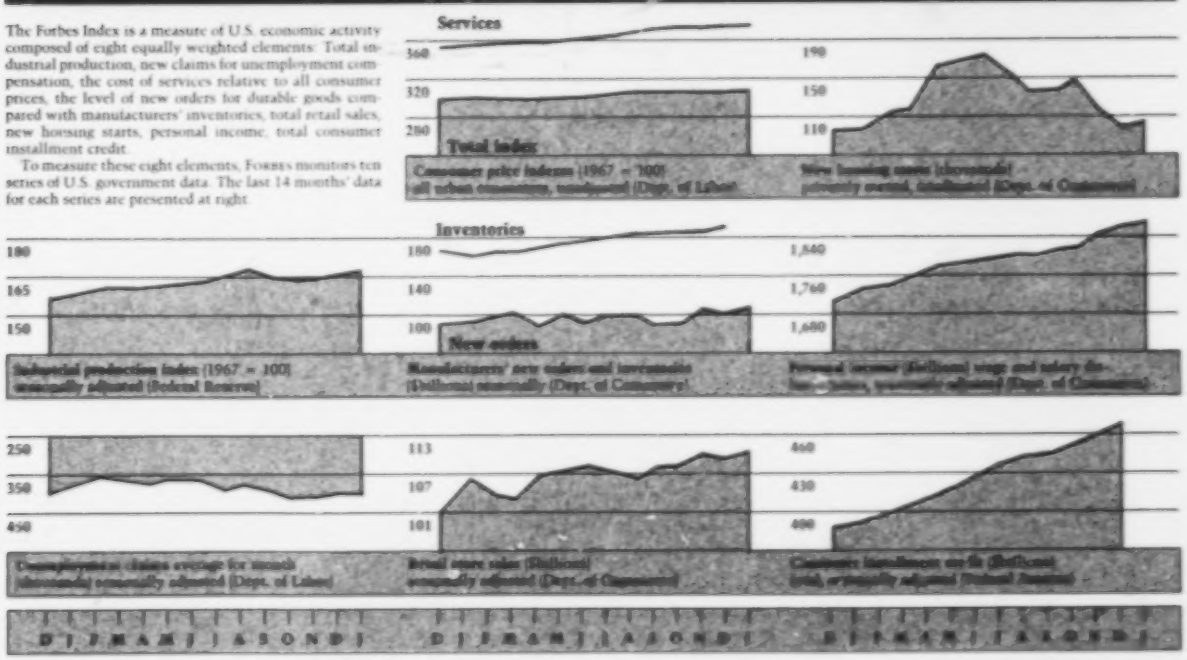


Pedal to the metal. Our latest look at the Forbes Index shows a healthy 0.7% rise over the previous month, one of the sharpest gains since April 1984. New housing starts, though still some 4.4% lower than they were one year ago, recorded an 8% month-to-month rise. Manufacturers' new orders advanced 3.8% over month-earlier figures. Meanwhile, retail sales are up 0.7%, industrial production 0.4%, and personal income 0.3% over month-earlier results. The Consumer Price Index rose 0.2% over the previous month, while the services component of the CPI increased twice as much. But on an annualized basis, a 2.3% growth rate for the CPI and a 4.9% growth rate for services still compares quite favorably to the double-digit inflation levels of just a few years ago.

The Forbes Index Components

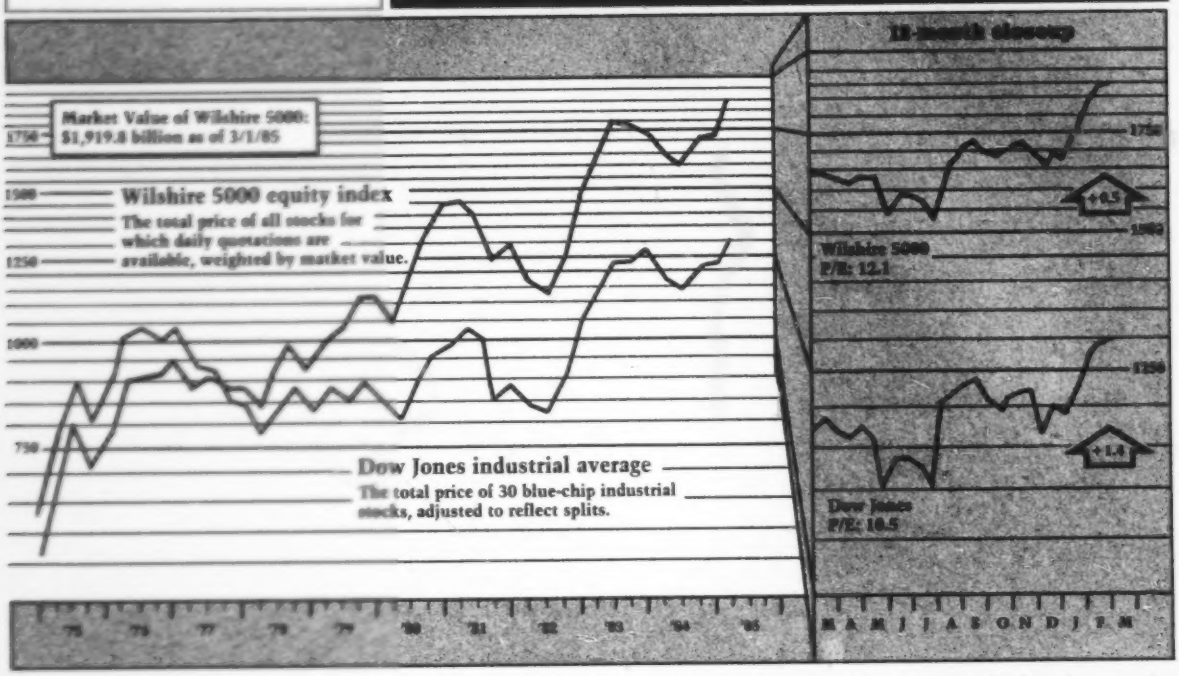
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Edited by Steve Kichen

The Forbes/Wilshire 5000 Review


Market Value of Wilshire 5000: $1,919.8 billion as of 3/1/85
Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
12-month closeup
Wilshire 5000 P/E: 12.1
Dow Jones P/E: 10.5
+0.5
+1.4
75 76 77 78 79 80 81 82 83 84 85
M A M J J A S O N D J F M

The blue chips pick up the slack. While the Dow industrials closed the last day of the most recent two-week period at an alltime high, secondary issues faltered slightly toward the end of the stretch. The Dow gained 1.4%, the Wilshire 0.5%, the NYSE 0.7% and the Forbes 500s 1.1% during the last ten trading days. But the Amex slipped 1.1% and the NASDAQ 0.2% over the same time period. The NASDAQ, however, still shows the best four-week performance with a 3.2% gain. In fact, since the start of the new year, NASDAQ issues are up some 16.1%, vs. a 7.2% gain for the Dow and a 10% gain for the NYSE. Our investor yardsticks below show the comparatively strong demand for higher-risk shares during the last four weeks. For example, high-growth stocks advanced 9.3% while low-growth issues moved up only 2.9%. In light of this strong performance, the recent profit-taking in secondary issues was only to be expected.

The Wilshire index is now selling at 12.1 times latest 12-month earnings. The last time the Wilshire P/E was higher, at 12.4, was in mid-February of last year. During the bull market that began in August of 1982 the Wilshire peaked at 14.9 times earnings late in June 1983. Unless corporate earnings take an unexpected dive, the market still seems to have room to expand.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
In last 4 weeks	2.7	2.8	1.7	2.7	2.8	3.2
In last 52 weeks	15.2	15.2	14.9	14.7	7.4	12.4

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $8
In last 4 weeks	2.5	6.7	7.0	2.9	4.3	4.1	2.3	7.1	9.3	2.9	3.7	8.9
In last 52 weeks	17.4	10.4	10.3	22.9	8.4	24.1	19.9	15.9	11.5	22.8	23.2	1.5

[1]Based on sales.
[2]A stock's sensitivity to overall market movements. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 3/1/85. Prepared by Wilshire Associates, Santa Monica, Calif.

Kenneth Alcorn

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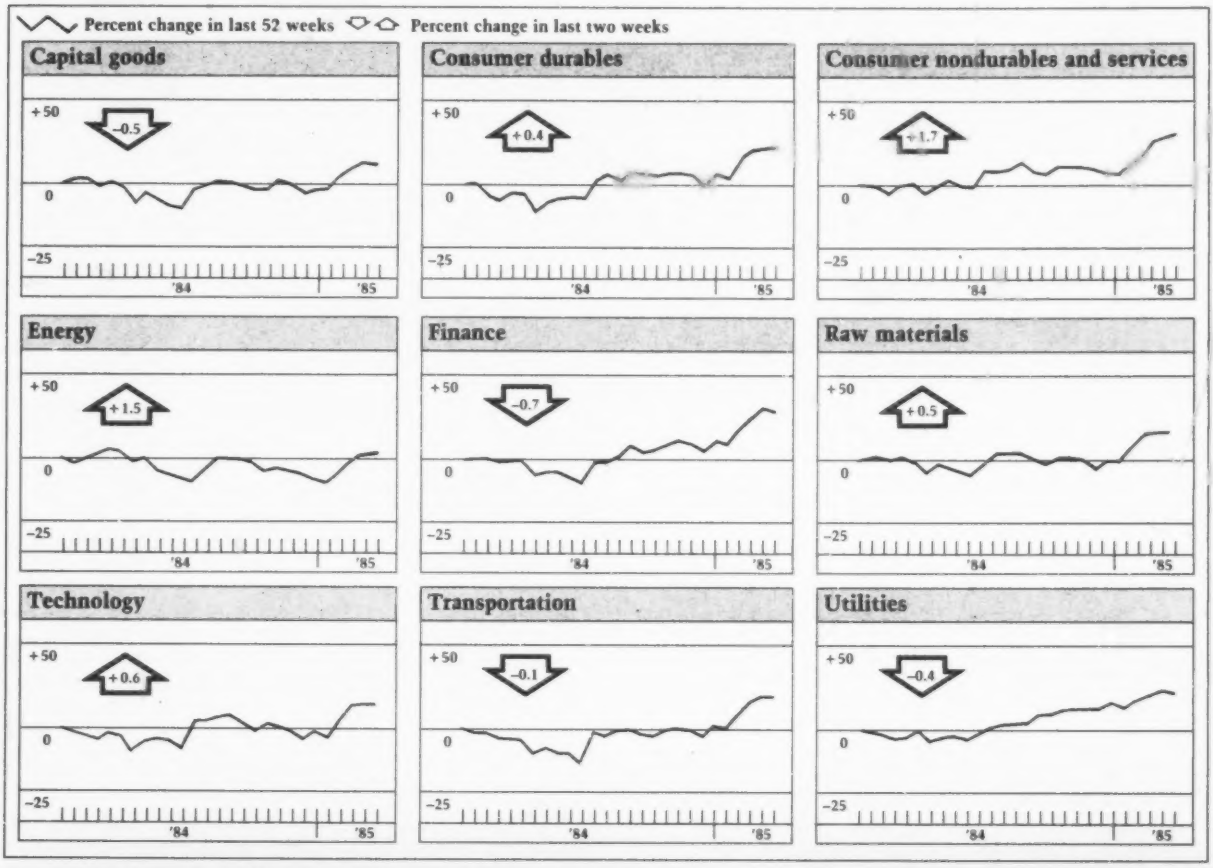
Where The Action Is

Down but not out. Finance shares show the weakest two-week performance, with a 0.7% decline. But the biggest losses came at the start of the period, and both money-center banks and the brokerage stocks were on the rebound at the close. The second-poorest-performing group was capital goods, which lost 0.5%. Utility shares had their first loss this year with a 0.4% decline, while transportation shares are off by 0.1%.

The consumer nondurables sector takes first-place honors for both two- and four-week performance. This sector is up 1.7% for the latest two weeks and 5% for the latest four weeks. Meanwhile, energy shares—boosted by the battle for Phillips Petroleum and the emerging struggle for Unocal—were up 1.5%.



What The Analysts Think

Low growth and high growth. Utility shares, at 7.1 times 1985 earnings estimates, sport the lowest estimated P/E among the nine Wilshire sectors. At the other extreme are technology shares, at 11.2 times estimated 1985 earnings. Between these two groups is The Forbes 500 (sales), which is selling at an estimated 1985 P/E of 8.9.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.81	10.4
1985 estimates	4.46	8.9
1986 estimates	5.03	8.2

Rank based on change in estimate	Sector	Estimated 1985 EPS	Estimated 1985 P/E	% change in 1985 estimate in 2 weeks	% change in 1985 estimate in 4 weeks
1	Transportation	$3.34	8.3	-0.04%	-0.58%
2	Utilities	3.62	7.1	-0.19	-0.37
3	Finance	3.46	8.9	-0.28	0.00
4	Consumer nondurables	2.73	10.6	-0.40	-1.07
5	Capital goods	3.07	10.9	-0.68	-1.01
6	Energy	3.80	7.5	-1.34	-2.37
7	Technology	3.12	11.2	-1.87	-3.71
8	Raw materials	2.63	9.2	-1.90	-3.30
9	Consumer durables	4.95	8.1	-3.05	-3.01

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 3/1/85. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

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The spinoff is sometimes a great trick for boosting share values, sidetracking unwanted suitors or unloading dogs.

The parts and the whole

By Leslie Pittel

BY SPINNING OFF from RLC Corp., we are telling the world that we are now mature and are able to stand on our own financially," says Thomas Blank, director of external affairs for Rollins Environmental Services. "It's a way of saying, 'Look at us, we're growing.'" Wall Street apparently is looking. Shares of Rollins Environmental are up over 300% since the August 1982 spinoff.

But few spinoffs produce such spectacular results. Although many analysts boast of the profits to be made on the stocks of companies that have had spinoffs, we found that the results are less than dramatic.

The table below reviews a sample of 31 spinoffs since 1981. A spinoff, by

Patrick McDermott

Spinoffs: a 50-50 proposition

We looked at these spinoffs—mostly by NYSE companies—from 1981 to the present. Leader Rollins Environmental Services quadrupled in less than three years, but only 17 of the 30 other spunoff firms outperformed the Wilshire index. Of the 23 parent firms listed, 14 beat the market. In 15 cases a share of the parent plus the proportional shares of the scion (0.1, for example, in a 1-for-10 distribution) bested the market.

			Parent			Spinoff			% change	
Parent	Spinoff	Spinoff date	price as of spinoff date	recent value	% change	price as of spinoff date	recent value	% change	parent + spinoff(s)[1]	Wilshire index
Amer Natural Res	Primark	1/4/82	$24.67	$48.13	95.1%	$15.67	$35.13	124.2%	99.1%	43.8%
AT&T	Ameritech	2/16/84	16.88	21.00	24.4	67.88	82.38	21.4	21.5	15.3
AT&T	Bell Atlantic	2/16/84	16.88	21.00	24.4	72.50	83.50	15.2	21.5	15.3
AT&T	BellSouth	2/16/84	16.88	21.00	24.4	31.29	35.63	13.8	21.5	15.3
AT&T	Nynex	2/16/84	16.88	21.00	24.4	62.13	79.38	27.8	21.5	15.3
AT&T	Pacific Telesis	2/16/84	16.88	21.00	24.4	58.38	71.13	21.8	21.5	15.3
AT&T	Southwestern Bell	2/16/84	16.88	21.00	24.4	60.88	72.75	19.5	21.5	15.3
AT&T	US West	2/16/84	16.88	21.00	24.4	61.00	73.25	20.1	21.5	15.3
Bairnco Corp	Kaydon	4/13/84	23.33	33.13	42.0	5.50	9.50	72.7	47.8	15.1
Canal-Randolph	United Stockyards	6/6/84	53.25	59.88[2]	8.4	7.25	12.38	70.7	26.0	16.9
CenCor	La Petite Academy	9/2/83	15.00	21.25	41.7	11.75	18.88	60.6	53.2	6.1
Cenergy	Cenergy	10/1/84	26.75	24.63	–7.9	44.75	9.13	–79.6	–40.1	10.0
Cooper Labs	CooperVision	12/15/83	11.50	15.63	35.9	14.43	20.88	44.6	40.8	19.5
Dillingham[3]	Ala Moana Hawaii Prop	7/30/81	11.13	25.00	124.7	20.63	18.15[4]	–12.0	35.9	34.9
Houston O & M[5]	Seagull Energy[6]	3/12/81	49.38	16.56	–66.5	20.00	17.13	–14.4	–63.2	34.4

[1]Based on proportional distribution of spinoff per one share of parent. [2]Includes liquidating dividends. [3]Went private on 3/18/83 @$25 per share. [4]Current price plus dividends to date. [5]Merged into Tenneco; recent value reflects proportional value of Tenneco + one unit H.O. Trust. [6]Formerly Seagull Pipeline.

Spinoffs: a 50-50 proposition

Parent	Spinoff	Spinoff date	Parent: price as of spinoff date	Parent: recent value	Parent: % change	Spinoff: price as of spinoff date	Spinoff: recent value	Spinoff: % change	% change: parent + spinoff(s)[1]	% change: Wilshire index
KN Energy	Midlands Energy[7]	12/[illegible]/83	$27.00	$36.25	11.1%	$15.25	$26.30	72.5%	48.0%	7.3%
Manoo Corp	Manoo Inds	7/2/84	25.00	31.38	25.5	19.00	40.25	111.8	28.7	28.5
Natomas[8]	American Pres Cos	9/1/83	24.63	18.63	–21.2	18.33	41.75	127.8	–1.2	6.7
Newhall Land & Farming	Newhall Invest Prop	3/30/83	22.38	46.50	107.8	12.13	20.72[9]	70.9	89.4	15.6
Newhall Land & Farming	Newhall Resources	3/30/83	22.38	46.50	107.8	11.38	11.78[9]	3.5	89.4	15.6
Peabody Intl	GEO International	2/19/81	7.00	8.13	16.1	32.13	5.63	–82.5	–64.9	41.1
Peoples Energy	MidCon Corp	12/21/81	8.25	15.50	87.9	29.75	45.00	51.3	59.2	43.2
Perini Corp	Perini Invest Prop	5/3/84	28.63	26.38	–7.9	11.75	12.38	5.3	–4.0	12.0
Phibro-Salomon[10]	Engelhard	5/27/81	16.00	37.00	131.3	29.50	27.00	–8.5	71.9	30.2
Philadelphia Suburban	Enterra	7/8/81	16.25	17.75	9.2	44.75	10.63	–76.3	–63.1	36.2
RJ Reynolds Inds	Sea-Land	6/20/84	55.13	79.50	44.2	17.25	24.50	42.0	44.1	17.0
RLC Corp	Rollins Environ	8/9/82	4.00	7.63	90.6	4.50	19.25	327.8	176.0	74.8
Rollins	Rollins Comm	7/2/84	8.00	11.63	45.3	15.38	20.75	35.0	37.1	18.0
Rollins	RPC Energy Services	7/2/84	8.00	11.63	45.3	2.75	4.38	16.7	37.1	18.0
Texas Intl	Regal International	6/1/82	11.75	2.25	–80.9	1.75	1.00	–42.9	–78.2	60.4
Time	Temple-Inland	1/27/84	44.38	47.63	7.3	34.00	35.25	3.7	6.5	8.6

[7]Merged into Freeport-McMoRan on 12/4/84; recent price reflects proportional value of Freeport. [8]Merged into Diamond Shamrock on 9/1/83; recent value reflects proportional value of Diamond Shamrock. [9]Current price plus dividends paid to date. [10]Formerly Phibro Corp.

Statistical Spotlight

our definition, is a distribution by a company to its shareholders of shares in a subsidiary. It does not include other reorganizations in which the subsidiary's shares are sold *(see story, p. 129)* or are traded for stock in the parent. Out of the 23 slimmed-down parent companies, only 14 beat the Wilshire index. The table also shows that investors who bought just the spunoff company on the day of the spinoff would have done better than the market in 18 cases. Investors holding both the parent and the spunoff company would have beaten the market in 15 cases.

"Firms have spinoffs because they hope that the combined sum of the parent and the spunoff part eventually is worth more than the whole," says Nikos Monoyios, a vice president at the Guardian Park Avenue Fund, a FORBES honor roll mutual fund that looks at spinoffs as one criterion for selection.

A subsidiary that is buried under the reputation of the parent may not be given the attention it deserves in the marketplace. As part of RLC, Rollins Environmental, a hazardous waste cleanup firm, was overshadowed by two large trucking subsidiaries. Amendments to the Resource Conservation & Recovery Act by Congress last year will be a tremendous boost to a specialized firm like Rollins Environmental. But the firm's abilities might have received far less attention if it were still part of RLC. Now the company is tracked by experts in the waste disposal industry rather than by trucking analysts.

Firms may do a spinoff to get around government regulations or tax laws. And sometimes opportunity can be thrust upon a company. It was AT&T's antitrust settlement with the Justice Department, after all, resulting in its spinning off seven regional holding companies, that enabled AT&T to move into the com-

The spinoff game in the oil patch

A few years back, when the tax laws were somewhat different and the energy industry was booming, some smart oil executives spun off part of their corporate assets as royalty trusts. Trust income is distributed directly to shareholders, avoiding income tax at the corporate level. Including the often substantial cash payouts from the trusts, three out of the four spunoff firms outperformed the Wilshire index.

Parent	Spinoff	Spinoff date	Parent: price as of spinoff date	Parent: recent value	Parent: % change	Spinoff: price as of spinoff date	Spinoff: recent value[1]	Spinoff: % change	% change: parent + spinoff[2]	% change: Wilshire index
Freeport-McMoRan	Freeport-McMoRan Oil & Gas	10/12/83	$21.88	$20.00	–8.6%	$6.63	$11.50	73.6%	5.3%	4.0%
La Land & Explor	LL&E Royalty Trust	7/6/83	25.00	34.00	36.0	13.25	18.86	42.3	37.3	2.9
Mesa Petroleum	Mesa Offshore Trust	12/30/82	11.63	18.50	59.1	1.88	2.75	46.7	57.4	28.0
Sabine Corp	Sabine Royalty Trust	1/3/83	15.13	17.13	13.2	20.50	23.57	15.0	29.5	29.4

[1]Current price plus dividends paid to date. [2]Based on proportional distribution of spinoff per one share of parent.

Statistical Spotlight

puter industry. So far, shareholders have come out ahead. The new AT&T and five of the seven regionals are outperforming the Wilshire index.

"Michigan Consolidated Gas, our main subsidiary, is able to obtain more favorable regulatory treatment now as a separate firm than it could while it was affiliated with American Natural Resources," says John Lewis, a spokesman for Primark Corp. Since Primark, a gas distributor, was spun off from American Natural Resources, its shares have more than doubled.

Shares of American Natural Resources are up 95% since Primark became a separate company. "American Natural Resources did not have a very good return when Michigan Consolidated was a subsidiary. Without that situation they're doing much better," says Lewis.

The spinoff reorganization has also had tax advantages, although Congress has recently curtailed them. The royalty trust spinoff, popularized by takeover artist T. Boone Pickens, was aimed at eliminating the double taxation of oil well profits (once at the corporate level, once at the shareholder level). "You can give the trust to the shareholder with direct interest in the income and let him pay taxes on an individual basis," explains Frederick Leuffer, an analyst with Cyrus J. Lawrence in New York. The trust acts as a partnership, paying no corporate taxes itself.

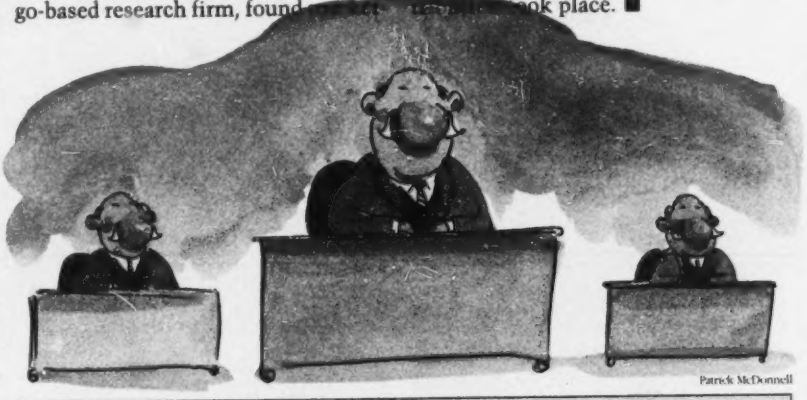
Changes in the tax laws have made it more difficult for an oil company to spin off a royalty income trust without incurring taxes on the reorganization itself. The table on page 266 lists four royalty spinoffs that occurred during the last three years. Note that the performance figures include income distributions from the trusts.

The spinoff can also be used as a defense against takeovers. Here a firm may spin off a readily salable division in order to prevent the entire company from being bought out. Doing nothing—or selling the division for cash—could attract an unfriendly suitor.

Then again, other companies use the spinoff to get rid of their worst divisions. In 1980 Fuqua Industries spun off Interstate Motor Freight System, a struggling carrier that filed for bankruptcy in 1984.

After chatting with analysts, examining financial reports and checking with our computers, we came up with the list on this page of possible spinoff candidates. We're not promising that any of these companies will restructure this way. But each of these firms appears to have something to gain by splitting off one or more divisions.

How can investors profit from spinoffs? One study, conducted in 1980 by Zavanelli Portfolio Research, a Chicago-based research firm, found [illegible] beating returns at first for investors buying spunoff firms. But the effects of the spinoff become insignificant after about 18 months. The study also found excess returns on the parent's stock between the announcement of the spinoff and the time that the dis[illegible]ook place. ■



Patrick McDonnell

Tomorrow's spinoffs?

Below, nominations from Wall Street analysts of firms that might benefit by distributing shares of subsidiaries to their shareholders. Times Mirror, for example, could make its earnings less recession-sensitive by following Time Inc.'s example and spinning off its forest products business. There is, of course, a good chance that the parents will simply sell, liquidate or continue to operate the divisions in question.

Company/principal business	Possible spinoff	Latest fiscal year sales (mil)	Latest fiscal year earnings (mil)
American Can/packaging, containers	canning business	$3,177	$132
Amfac/food processing	packaging	2,392	–14
Beatrice Foods/food processing	Avis Corp	9,330	334
Centex/home-building	cement	1,183	51
Control Data/computer equip, svcs	finance, insurance	5,027	102
Crown Zellerbach/paper, forest prods	timber, cnsmr prods	3,095	87
Walt Disney/recreation	real estate	1,656	21
Exxon/integrated oil	office equip	97,276	5,525
IC Industries/multicompany	railroad	4,234	122
ITT/multicompany	hotels, nat resources	20,250	675
Mobil Oil/integrated oil	Montgomery Ward	60,624	1,270
Tandy Corp/retail consumer electronics	microcomputers	2,740	282
Times Mirror/newspapers	paper, forest prods	2,805	233
Wrather/hotels, entertainment	real estate	103	–2
Xerox/office equip	insurance	8,792	291